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SUBJECT: AMBASSADOR'S MEETING WITH MINISTER OF OIL
SHAHRISTANI

Classified By: AMBASSADOR ZALMAY KHALILZAD, E.O. 12598 REASONS 1.4 (A)
AND (D)

¶1. (S) Summary. Ambassador met evening of November 22 with Minister of Oil Husayn al-Shahristani to discuss the outlook for the November 23 GoI Energy Committee discussion of the Hydrocarbon Law. Shahristani expressed optimism that a breakthrough with the Kurds can be reached if the U.S. makes it clear to the KRG that they need to drop the most unreasonable of their demands on contracting. He also argued that the revenue sharing issue would be relatively simple to resolve. Shahristani took the Ambassador's point that a breakthrough on the law would be a major positive step to reinforce momentum on national reconciliation. With both Massaoud and Nechirvan Barzani expected in Baghdad in the next days, the timing was good to try to make decisive progress. Shahristani agreed enthusiastically with the idea to create a separate list of projects in the Kurdish region that would be agreed as part of a hydrocarbons compromise. Such a list of priority projects, that would benefit the Kurds both on the production and infrastructure side as well as downstream job-creating opportunities, could be a critical confidence building measure that could facilitate the Kurds, dropping their insistence on ultimate contract-signing authority. Shahristani invited Econ MinCouns to attend the Energy Committee meetings on the Hydrocarbon Law.

¶2. (S) Shahristani also discussed his recent trip with the PM to Turkey, which he described as very successful and reassuring to Maliki. He expressed support for the idea of a trilateral gas working group among the GoI, the GoT and the USG, pointing out that speedy development of gas deposits in Iraq's Kurdish region would make economic sense, given cooperation with the Turks, and could help facilitate a consensus within Iraq on hydrocarbon development strategies. Shahristani also discussed the political situation at length with the Ambassador, especially relations with Syria and prospects for reducing sectarian violence. He urged that a new group of Sunni leaders be cultivated. Shahristani offered insights into the bad chemistry between Maliki and VP Tariq al-Hashemi. End Summary.

Turkey Trip and Kirkuk

¶3. (S) Shahristani began the conversation by describing Maliki's recent trip to Turkey. Shahristani said the relationship between Maliki and PM Erdogan had developed quickly, with the Iraqis being pleasantly surprised at Erdogan's flexibility on the water sharing issue. Shahristani said that Erdogan had made clear that the Iraqis should count on the water they are entitled to and that Turkey would not make trouble on that issue. In exchange,

Turkey was looking for cooperation on the PKK, and GoI support to resolve the Kirkuk issue in a way that keeps Kirkuk out of Kurdish control. Shahrستاني added that he recognized that the KRG approach to Kirkuk was not driven by desire to control the oilfields, since the Kurds had agreed to a per capita distribution of all oil proceeds, but he noted that the Turks had made clear to Maliki that they would resort to "other means" if it looked like Kirkuk would fall into Kurdish hands. Shahrستاني also praised Erdogan,s political acumen, and said that the Iraqis had been very impressed by the economic progress that had been made under the AK Party,s leadership. He compared Erdogan,s task of balancing competing political forces, including the General Staff, with the task that Maliki faces, saying these complex political factors gave the two leaders much in common.

¶4. (S) Shahrستاني said that he would be prepared to make development of the Kurdish gas fields a priority if the Turks were interested in getting Iraqi gas into their gas pipeline system. He acknowledged U.S. interest in developing alternative gas supply possibilities for the European market. He also thought that Iraqi gas from the Akkas field could be routed through Syria to link up with a Turkish pipeline.

Oil Overview

¶5. (S) Shahrستاني gave a quick overview of his plans to re-structure the Ministry of Oil and the tremendous untapped potential for hydrocarbons in Iraq. He said he has drafted provisions to reorganize MinOil, spinning off not only the Iraq National Oil Company but also operating companies from the ministry for gas, pipelines, and export facilities

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management. Shahrستاني noted that while there were 80 discovered fields in Iraq, there were 500 identified structures. The rate of discovered oil to structures was very high in Iraq, making the prospects especially promising. He noted that of the 80 discovered fields, 11 were supergiants, 10 giants and about the same number exceptionally large, suggesting that about half the discoveries in Iraq could be expected to be of significant potential. He also acknowledged that there is perhaps the greatest potential in the Sunni regions of western Iraq. He felt that the Sunnis were skeptical of federalism not because they were afraid of being cut out of oil revenues, but because they were concerned about holding Iraq together; their concerns were political, not economic. Shahrستاني noted that the Akkas field could be very quickly brought into production as a way to show that Sunni regions could profit from national oil resource development.

¶6. (S) Shahrستاني was enthusiastic about the prospects for all the regions of Iraq profiting from oil. His plan was to allow any region or governorate or even sub-unit that produced 100,000 bbl/day to form its own regional operating company, since such production implied revenues of ca. \$2 bil. p.a., sufficient for economic operation. Shahrستاني proposed a very simple formula for allocating costs to producers under a revenue sharing mechanism. Since it costs on average \$1 per barrel to produce oil in Iraq, producers would receive \$1.50 per bbl for their output, with the remainder going to the federal budget for allocation. Shahrستاني said that he had no difficulty with the Kurdish proposal to create an offshore oil trust fund, but that he did have problems with their argument that they should be able to draw on their share of such a fund at any time, saying that this would lead to chaos in allocating funds for regular national budget operations.

Iran, Syria and Politics

17. (S) Shahrستاني said that President Talabani had asked him to accompany him to Tehran. Shahrستاني felt that Talabani had a good relationship with the Iranians, even though he was close to the U.S., because "unlike Massaoud, Talabani had never stabbed the Iranians in the back." He agreed with the Ambassador's suggestion that Talabani should use his connections with Tehran to get more Iranian cooperation on halting sectarian violence. Shahrستاني contrasted Tehran with Damascus, saying that even when Khamenei had made promises of cooperation to Maliki, he was unable to deliver because he did not have complete control over all the elements of the regime. At least when the Syrians promised something, Shahrستاني argued, they had enough discipline to deliver it. He agreed with the Ambassador's assessment that Maliki had been disappointed in Khamenei's unfulfilled offers of cooperation and had learned not to trust Tehran. Shahrستاني put forward the idea that Iran and Syria could be moved to cooperate if they were given U.S. assurances of a no regime change policy. The Ambassador responded that what the U.S. sought was a change in the behavior of the two regimes.

Baathist Bogeymen

18. (S) Shahrستاني felt there could be a good basis for a dialogue with Syria and Iran to get them to stop their support for AQI and other insurgents if we acknowledged that the root of the problem in Iraq was the Baathists. He cited the success of the Anbar tribal initiative in combating AQI as one example of how progress could be made, but argued the Baathists are using AQI and other national patriotic groups to continue the insurgency. Eliminate the Saddamist Baathists and the AQI problem and remaining Sunni insurgent elements would be relatively easy to deal with, he argued. The Ambassador responded that the U.S. analysis does not share the view that Baathists are the driving force at this time in Iraq's woes. Yes, the Baathists are a major problem but sectarian violence is now the main problem and ways need to be found to reduce the killing. Shahrستاني said he was open to a more detailed discussion of the problem, as was Maliki, but that he continued to believe the Baathists in Syria represented the center of gravity in the civil unrest in Iraq and if they could be eliminated the sectarian situation could be addressed by finding different Sunni leaders to promote reconciliation. He argued for a carrot and stick approach by the U.S. to Syria. He also argued that with progress on that front, Najaf would be encouraged to

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take a stronger stand and help reduce the sectarian violence, but reciprocal assurances were needed. Shahrستاني said that PM Maliki would be prepared to take brave steps against the Jaysh al-Mahdi if Syrian support for the Baathists could be stopped and Najaf used its influence to reduce sectarian killings. With a clear campaign against the Baathists, Maliki would have a free hand to confront Moqtada al-Sadr and JAM in several months.

19. (S) Shahrستاني claimed that Maliki had no trouble cooperating with Sunnis in the government if they were capable, like Planning Minister Baban. The Ambassador probed Shahrستاني on why Maliki's relationship with VP Tariq al-Hashemi seemed so bad. Shahrستاني argued that Maliki had learned from his experience with the Dawa Party that no one could unite the Shia tribes and groups from the outside; there could be no single controlling force. That was the reality of Iraqi politics. Consequently, Maliki did not believe that VP Hashemi could ever be the single spokesman for the Sunni in any event, and therefore the PM wanted to reach out to other Sunni leaders. Hashemi in turn viewed these efforts with suspicion, damaging the relationship between the two leaders. Shahrستاني urged that we work together to develop a new core of Sunni leaders.

Cabinet Changes

¶10. (S) Shahrستاني said that Maliki was planning to replace all the Sadrist ministers in the cabinet. Shahrستاني thought that the agriculture minister was not bad, and was indeed critical of Moqtada,s leadership. The health minister was also not as bad as his reputation. The almost complete infiltration of the Health Ministry by Sadrists made it impossible for the minister to gain control of the ministry. Shahrستاني also confirmed that Deputy PM Zobaie would be replaced, as well as Interior, but not the defense minister.

U.S.-Iraqi Relations and the Hydrocarbons Law

¶11. (S) The Ambassador underlined that progress on the hydrocarbons law would be an important step in supporting national reconciliation and that the American public was anxious to see some progress being made by the GoI. Shahrستاني acknowledged that the Maliki government needed to do a better job of producing results that would show more progress. He offered to accompany the PM to his meeting with the President to brief on hydrocarbons since he thought the oil sector would be a good starting point for a better national dialogue of reconciliation. Shahrستاني said that the presence of international oil companies in Iraq - for which the Hydrocarbon Law is a prerequisite - would send a strong international signal that Iraq is moving in the right direction. He acknowledged that the GoI had about 12 months to show real progress, and was confident that a Hydrocarbon Law could be adopted quickly that would allow for a round of bids to be completed and the IOC,s starting to work in Iraq within a year. He said that on contentious issues with the Kurds, like arbitration and decision-making by the Federal Petroleum Council, compromises could be found. Shahrستاني invited Econ MinCouns to attend the GOI Energy Committee discussions, beginning November 23, on the Hydrocarbon Law. The Committee is chaired by Deputy PM Barham Salih.

¶12. (S) Shahrستاني returned to his point that the Kirkuk question needed to be resolved in a way that reassured the Turks. An oil deal and resolution of Kirkuk in a way that also reassures the Sunni could open the way for more reconciliation on sectarian differences. He listed MoI reform and combating Baathists in the military as two other key issues, and noted that getting action against the JAM would ultimately also involve getting Iranian acquiescence, since Tehran provided the money for JAM. Shahrستاني also expressed some frustration with the U.S., confirming that he would no longer attend meetings of the Infrastructure Security Group since the meetings were a waste of his and the Electricity Minister,s time. The meetings were taken up with presentation of plans and did not result in clear actions. Shahrستاني also intimated that Maliki is losing patience with National Security Advisor Rubaie,s repeated presentations of plans that lead nowhere. Shahrستاني urged the Ambassador to use his influence to improve confidence between the PM and U.S. military leaders, noting that he has heard Maliki frequently express frustration with his

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inability to have control over his own forces. The Ambassador responded that now Iraqi special forces are under the PM,s control and that the U.S. was sensitive to Maliki,s concerns.

¶13. Comment: Shahrستاني,s stated optimism on resolving the hydrocarbons impasse has been borne out by progress in the Energy Committee over the past two days (septel). Sources inside the Oil Ministry confirm that Shahrستاني, who has been outside Iraq for much of the last six weeks, has backed the re-structuring of the ministry that would accompany the Hydrocarbon Law. End Comment.

